

The Defend Trade Secrets Act of 2016: Year One

Some Nuts and Bolts

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Agenda

- **Why the focus on Trade Secret Law?**
- **Overview of DTSA**
 - The cause of action
 - Ex parte seizure
 - Employee protections
 - Practical considerations and miscellaneous issue
- **Decisions in the first year**

Why the focus on Trade Secret Law?

Recent “Legislative” Activity

- **US → Defend Trade Secrets Act of 2016**
- **EU → Trade Secret Directive (2016)**
 - harmonizes national law across the EU
- **Japan → Amendment to Unfair Competition Prevention Act**
 - 2015 amendments bolster civil claims & stiffen criminal penalties
- **China → Proposed Amendment to the Anti-Unfair Competition Law**

Why the focus on Trade Secret Law?

- **Trade secrets make up a large part of many companies' assets and overall value**
- **Theft of trade secrets is a big problem**
 - Per Senate report on DTSA, one group estimated annual costs to US is \$300B and 2.1M jobs
 - PwC / create.org reported loss at \$480B (or 1 to 3% of GDP of the US & other countries)
- **The enormous expansion of information technology has made secrets easier to steal**
 - Concern from both external hacking and insider stealing
- **Increased acts of organized international thieves**

Why the focus on Trade Secret Law?

- **Patents have been harder to enforce**
- **There is a lack of uniformity in trade secret laws**
 - Due to lack of national or international requirements
- **Countervailing concerns:**
 - Concerns that overzealous trade secret protection (non-competes) can impact worker mobility
 - Trade secret protections directly control the flow of information / speech

Overview of the DTSA

- **DTSA into law on May 11, 2016**

- Approved in Senate (87 – 0) on April 4, 2016
- Approved in House (410 – 2) on April 27, 2016

- **DTSA effective date**

- The Act applies to misappropriation occurring on or after May 11, 2016
 - Applies even if some misappropriation was prior
 - Compare with application of DTSA 3-year period of limitations
 - For period of limitation purposes, a continuing misappropriation constitutes a single claim of misappropriation

Overview of the DTSA

- **For the 1st time, provides a Federal civil remedy for the misappropriation of trade secrets**
 - The DTSA makes it *easier* to get into Federal Court
 - Formally codified as part of the Economic Espionage Act
 - Prior Federal trade secret laws:
 - require private parties to rely on the DOJ
 - have requirements beyond traditional trade secret laws
- **Will bring more uniformity to trade secret law**
 - The Uniform Trade Secrets Act is not really an “Act”
 - Less fragmentation of case law
- **Does NOT preempt state (or any) trade secret laws**

The cause of action under the DTSA

- **The basic requirements for a DTSA complaint:**
 - a civil action may be brought by owner of the trade secret
 - if the *trade secret* has been “*misappropriated*” and
 - if the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce
- **DTSA definitions of misappropriation, *improper means*, and TS are basically the same as in UTSA**
- **DTSA defines “*misappropriation*” as:**
 - disclosure or use by a person who used improper means to acquire the trade secret or had certain knowledge, or
 - acquisition by a person who knows (or has reason to know) trade secret was acquired by improper means

The cause of action under the DTSA

- **DTSA defines “*improper means*” to**
 - include theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means; and
 - does NOT include reverse engineering, independent derivation, or any other lawful means of acquisition
- **DTSA relies on definition of “*trade secret*” in EEA**
 - Information is a trade secret if:
 - the owner took reasonable measures to keep the information secret; and
 - the information derives independent economic value from not being generally known to, and not being readily ascertainable through proper means by, the public

DTSA vs. UTSA

- **Ex parte seizure**
 - Only available under DTSA
- **Injunctions**
 - DTSA limits on injunctions impacting employees
- **Employee notification requirement**
 - Only in DTSA; failure limits attorney fees / 2x damages
- **Whistleblower protections**
 - Only in DTSA
- **Procedural issues**
 - DTSA allows owner to prevent litigants or Court from disclosing trade secrets

Ex Parte Seizure

- **The DTSA provides for ex parte civil seizure**
 - Not available in UTSA (but comparable with Lanham Act and Copyright Act)
- **Civil seizure overview**
 - Extraordinary circumstances
 - Ex parte application
 - Seizure of “property” “necessary to prevent the propagation or dissemination of the trade secret”

Ex Parte Seizure

- **Plaintiff has to meet these requirements for seizure of property**
 - *Equitable relief/injunction would be inadequate*
 - *Irreparable harm*
 - Balance of harms favors seizure
 - Likelihood of success
 - Target possesses trade secret and property to be seized
 - Seized property described with reasonable particularity
 - *Target would destroy property if given notice*
 - Plaintiff has not publicized the seizure request

Ex Parte Seizure

- **Requirements for a Court's seizure order**
 - Narrowest seizure necessary
 - Set hearing date within 7 days
 - Require security for wrongful seizure
 - Guidance to law enforcement for seizure, including whether “force may be used to access locked areas”
- **Seizure to be carried out by Federal law enforcement officials**
 - State and local officials may be present, but applicant may NOT be present

Ex Parte Seizure

- **Additional issues regarding seizure orders**
 - Post issuance, a hearing shall be held regarding maintenance, dissolution or modification of order
 - the court may set expedited discovery time table
 - Provides for bringing an action for damage caused by wrongful or excessive seizure
 - damage is NOT limited to amount of security posted
 - Filing complaint under seal

DTSA – Employee issues

- **DTSA avoids “inevitable disclosure” doctrine**
 - Courts may not grant injunctive relief if doing so would “prevent a person from entering into an employment relationship”
 - Courts can condition employment only if there is evidence of threatened misappropriation: it cannot rely on “the information the person knows”
 - language makes clear that so-called “inevitable disclosure claims” cannot result in an injunction

DTSA – Employee issues (whistleblowers)

- **Whistleblower immunity provision protects individuals from civil (or criminal liability) due to “disclosure of a trade secret” if:**
 - Made “in confidence to a Federal, State or local government official, either directly or indirectly, or to an attorney” solely for “the purpose of reporting or investigating a suspected violation of law,” OR
 - Made in a complaint/document “filed in a lawsuit or other proceeding, if such filing is made under seal”

DTSA – Employee issues (whistleblowers)

- **Whistleblower also can use trade secrets in an anti-retaliation lawsuit**
 - An individual who files a lawsuit for retaliation by an employer for reporting a violation of the law may disclose a trade secret to the attorney and use in court proceedings if:
 - documents containing the trade secret are filed under seal, AND
 - the individual does not disclose the trade secrets, except pursuant to a court order
- **For purposes of the immunity subsection of the DTSA, protected “employees” include contractors and individual consultants**

DTSA – Employee Issues (duty to notify)

- **Affirmative duty is placed on employers to provide notice of whistleblower immunity provision in new contracts with an employee “that governs the use of a trade secret or other confidential information”**
 - An employer can comply with this requirement by providing a “cross-reference to a policy document”
 - For these provisions, “employee” includes contractors and consultants
- **Consequence of failure to comply with notice requirement**
 - prevents employer from recovering exemplary damages/attorneys’ fees in action under DTSA against the particular employee to whom no notice was provided

DTSA – Miscellaneous Issues

- **DTSA amends the RICO statute to add a violation of the Economic Espionage Act as a predicate act**
- **Every two years the DOJ and other agencies must submit a report to Congress that addresses issues such as:**
 - The scope and breadth of theft of trade secrets of US companies occurring outside of the United States
 - The extent to which such theft is sponsored by foreign governments, foreign instrumentalities, or foreign agents
 - A breakdown of the trade secret protections afforded US companies by each country that is a trading partner of the US, including a list identifying specific countries where there is a significant problem for US companies

DTSA – Some Practical Considerations

- **When filing a Federal complaint, you should consider including DTSA and/or state law claims**
 - When might a claim in state court (under state law) still be the best option?
- **Should you include a request for civil seizure when you file a complaint?**
- **Some states require plaintiff to define trade secrets (e.g., sec. 2019.210 of Cal. Code of Civil Proc.)**
 - Defendant's should try to get Federal judge in DTSA case to impose a similar requirement as part of case management

DTSA – Decisions So Far

- **Over 50 decisions can be found in a Lexis search for “Defend Trade Secrets Act”**
- **Issues addressed by these cases include:**
 - 1) Application of DTSA to misappropriations that occur before and continue after DTSA enactment
 - See, e.g., *Brand Energy & Infrastructure Servs. v. Irex Contr.* (ED Penn); *AllCells v. Zhai* (ND Cal); *Adams Arms v. Unified Weapon Sys.* (MD Fla)
 - 2) Plaintiff ability to amend complaint / counterclaim
 - See, e.g., *Syntel Sterling Best Shores Mauritius v. The Trizetto Group* (SDNY); *Via Techs. v. Asus Computer* (ND Cal)
 - 3) Routine issues were the focus of some decisions in DTSA cases
 - E.g., personal jurisdiction, discovery dispute, . . .

DTSA – Decisions So Far

4) Preliminary relief

- Includes ex parte seizure, other ex parte TRO requests, preliminary injunction requests
- Only 2 seizures granted, of 100s of cases filed and dozens of ex parte seizure requests
 - Mission Capital Advisors v. Romaka (SDNY); Magnesita Refractories v. Mishra (ND Ind)
- Courts commonly deny ex parte request because plaintiff had not shown likelihood of irreparable harm
 - See, e.g., KCG Ams. v. Zhengquan Zhang (ND Cal); ASI Bus. Solutions v. Otsuka Am. Pharm. (ND Cal); CrowdStrike v. NSS Labs. (D Del); GTO Access Sys. v. Ghost Controls (ND Fla)
- Courts have been willing to issue a PI ordering defendant not to disclose or use the alleged trade secret
 - See, e.g., Henry Schein v. Cook (ND Cal); Prot. Techs. v. Ribler Estes Forwarding Worldwide (D Nev)

DTSA – Decisions So Far

- 5) Courts are willing to grant motions to dismiss for inadequacy of trade secret allegations**
- Plaintiff had not identified specific documents or information that constitute a trade secret (e.g., simply listed categories or general topics of information)
 - See, e.g., Kuryakyn Holdings v. Ciro (WD Wis); Space Data Corp. v. X (ND Cal)
 - Plaintiff failed to allege it took reasonable steps to protect the secrecy of the information at issue
 - See, e.g., M.C. Dean, Inc. v. City of Miami Beach (SD Fla); Raben Tire Co. v. Dennis Mcfarland (WD Kt); Archie MD v. Elsevier (SDNY)

DTSA – Decisions So Far

- **Type of Defendant**

- The most common defendant in the cases I reviewed was a former employee (17 out of 27 cases)
- The rest of the cases involved a business partner

- **State Law claims**

- State law claims were also asserted, along with the with DTSA claims, in most of the cases I reviewed

Thanks!